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VOL. CLIII NO. 192 Monday, October 3, 1988 135rd Year

Today

NEWS MONDAY

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The head of the top thrift trade group has offered to promote a bill that would allow some 3,000 small commercial banks access to low-cost loans from the 12 Federal Home Loan banks — but the bankers aren't interested. — 17

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Worth Repeating

We're a small state with small banks. It's an incursion to come out of the Big Apple to hit us here.

West Virginia bank regulator David Mudie on Goldome FSB, Buffalo, which has been ordered to stop selling certificates of deposit in the state's discount stores. [Page 3]

WASHINGTON BRIEFING

Fed Got Plum in AMBAC Case

By ROBERT TRIGAUX

If you're a banking lawyer, or are willing at least to admit you know one, then undoubtedly you're quite aware of the industry rumblings over the AMBAC court decision — and its dire implications.

If you're not a lawyer, read on. The case may very well affect the entire industry.

The court decision is rapidly being dubbed "Everything the Federal Reserve Wanted But Was Afraid To Ask For."

AMBAC is a subsidiary of Citibank that in turn is subsidiary of the holding company Citicorp. When Citibank won approval of its application to the Comptroller of the Currency to have AMBAC offer municipal bond insurance, the insurance industry sued. It argued that the bank subsidiary was really engaging in an insurance activity beyond the scope of currently permissible activities.

Don't yawn just yet and assume this is another banks-versus-insurance controversy.

Here's the curve ball. Lurking in the decision of the U.S. Court of Appeals in the District of Columbia (American Insurance Association v. Robert L. Clarke, Comptroller of the Currency)

Please see AMBAC: Page 16 ➤

UNRESERVED OPINION /COMMENTARY

Used-Car Loan Buyers, Beware

By BEN WEBERMAN

WOULD you make a highly leveraged loan to a used-car salesperson? No! How about lending money to a captive finance company that makes loans to buyers of used cars?

Would you make a highly leveraged loan to a finance subsidiary whose credits are backed by receivables of second-hand auto loans? A number of smaller, regional banks are starting to buy these asset-backed credits.

Their naivete has bank regulators upset, as indicated by a recent interview with one regulator who asked to remain anonymous. For the worst of the credits — some are private placements, fewer are offered publicly — the statements are unaudited or unavailable.

Billions of dollars of so-called structured financing credits are being arranged. Most are on the up and up. But the success of the honest deals is pulling in vultures. Those are the ones to avoid.

But how can the live securitized debt issues be separated from those that are dead at birth? There are certain things to avoid, says the bank regulator.

First of all, don't take a position in any security when the salesperson has a deal that "guarantees" principal.

"The examiners are starting to hear of securitized assets with verbal puts and with verbal buyback offers." That is a certain danger sign, says this regulator.

Please see UNRESERVED: Page 8 ➤

Deal to Rescue 2 Texas Banks May Fall Apart

Investor Pohlad Seeking More FDIC Aid: Sources

By STEVE KLINKERMAN
Southwest Bureau

DALLAS — A dispute between Minneapolis investor Carl Pohlad and the Federal Deposit Insurance Corp. is threatening to derail the proposed rescue and merger of Texas American Bancshares Inc. and National Bancshares Corporation of Texas.

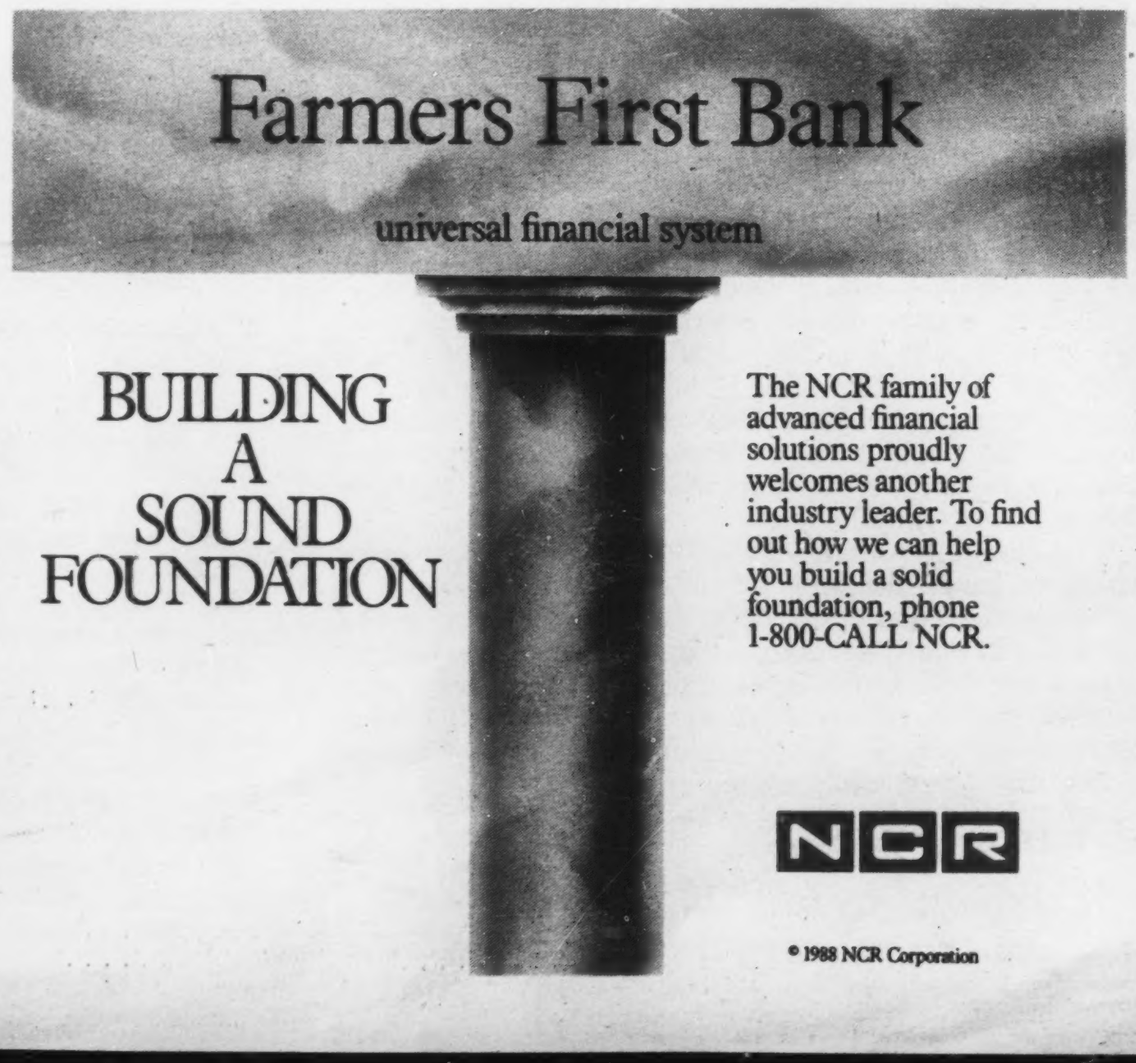
On July 20, Fort Worth-based Texas American and San Antonio-based National Bancshares announced a preliminary agreement to merge. Financing for the merger was to come from Mr. Pohlad, who as the acquirer agreed to invest up to $200 million, and from the FDIC, which was to provide $475 million in assistance.

However, industry sources on Friday said the July proposal was flawed, because Mr. Pohlad did not thoroughly audit the books of Texas American and National Bancshares before making his bid.

Further clouding the proposed merger, sources said, were the generous assistance terms granted in the rescue of NCNB National Bank of Texas, the federally owned bridge bank that contains the 40 former Texas member banks of First RepublicBank Corp. On July 29, NCNB Corp., Charlotte, N.C., won a contract to manage and ultimately acquire NCNB Texas.

The NCNB transaction stands in sharp contrast to Mr. Pohlad's deal. Without thoroughly examining the books of Texas American and National Bancshares, Mr. Pohlad consented to a

Please see REVISION: Page 23 ➤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BANKING TRENDS /COMMENTARY

Acquirers Should Accent Local Bank's Flavor

By DR. PAUL S. NADLER

THE LOCAL bank had just been acquired by a much larger organization when the chief executive of the local institution got the following instructions from his new boss, the chairman of the holding company:

"If you've been giving $1,000 to the Boy Scouts locally, this year give $2,000. And for heaven's sake, don't tell them you have to check with us first — just do it!"

This example helps explain how a growing organization can work to carry water on both shoulders — to get the benefits of taking over an organization and generating economies of scale while keeping the local flavor that makes a bank successful in its community.

Ironically, many people think that the large institutions can beat the pants off the community banks. Usually it is the other way around.

Recently, a community bank president was addressing my seminar on financial institutions and was asked, "Don't you worry about the large banks taking away your business?

The banker's eyes lit up, and he laughed as he responded: "I have never lost a loan to a large bank in my 10 years as president."

He then told the story of a man who had kept a major account at a large competitor, only to be told one day when he went into his branch that his old branch manager was gone, that no one knew his situation, and that he would have "to go down to explain his position to the officers at headquarters to continue the borrowing relationship.

"He bumped into me on the street at lunchtime that day in our town and asked me, 'Pete, what's my name?'

"I laughed and told him his name, since I would see him frequently at the places where I would eat lunch and at the community meetings we both attended.

"That afternoon, he came in and opened an account with $700,000, saying, 'Nobody at my old bank knows my name anymore.' "

Dr. Nadler is a professor of finance at Rutgers University's Graduate School of Management and is contributing editor of the *American Banker*.

Some Changes Are Needed

Stories like the above are told again and again. And that explains why the community bank survives, and why so many community bankers are delighted when the community bank across the street is bought by a larger company. Immediately, people are moved out. Policies, faces, and even bank names change, and it is not the same bank anymore.

Why do acquiring banks make these changes?

Sometimes they feel they have to.

Marketing costs are so much lower when you have one bank name instead of a number of different bank names within a holding company.

Sometimes you just don't need all the people, and it costs too much to duplicate the talent in several local offices that are now part of the same company.

And there is the high cost of keeping separate banks, separate boards, separate annual reports, and separate operations.

Thus the acquiring bank usually blends the newly bought organization into its own fold — changing its name, replacing the board with an advisory board, and gradually or quickly changing policies and faces until it is not the same bank it was when it was acquired.

But it does not always have to work this way. Take, for example, the banker who told the CEO of the newly acquired institution to make decisions on donations to local charities. The holding company chairman runs an organization that is trying to keep the local flavor. How is this done?

- The holding company never changes an acquired bank's name. It just adds "Member of the Schmidlap Bancorp." to advertisements.
- By keeping separate banks, local boards are kept intact. An effort is made to keep morale high by asking for no staff reductions except through attrition.
- It is recognized that a bank must be of a reasonable size before it can be left to run independently. But if the bank is run independently, decisions are all made locally on everything that affects the customers.
- Only in areas such as back-office efficiency, duplication of duties, and investment does the holding company play a role — and here there is no way of affecting local customers by what is done to develop efficiency.
- In essence, the holding company bought the banks because they were doing the job in their territory. And the holding company doesn't want to kill what it has bought by robbing the local institutions of their independent flavor and autonomy.

Pieces of the Bank Package

And, in this regard, one can sit back and ask, "What do you get when you buy a bank?"

First, you get the building — something that most of the acquirers would gladly tear down and build over again if they could.

Second, you get the old 5¼% mortgages that will stay on the books forever. (A 20-year, 12% mortgage stays on the books an average of 8 years. A 20-year, 50% mortgage stays on the books 20 years, plus the grace period, and then the borrower comes limping in, not running in, to pay it off.)

Nadler Says:

Loyalty is a thin reed. It takes work, selling, vision, and sensitivity to keep people happy after their bank has been acquired.

Third, you get the core deposits — both of them, Charlie and Sadie.

Fourth, and most important, you get the loyalty and talent of the board, the officers, and the staff. And when you rob your bank of this most important asset, you rob yourself of much of what you bought the bank to get.

Loyalty is a thin reed. It takes work, selling, vision, and sensitivity to keep people happy after their bank has been acquired. And it takes a willingness to sit back and let the bank keep running much as it ran in the past, even though your money is now in it and you have the right to do what you want.

But what has to be remembered is that, when you buy a bank, you are buying entry into a territory, and you are paying a good premium for deposits that the bank has already gleaned from that territory.

Depositors Are Not Captives

But the depositors are not captives. If they are unhappy with the new owner of the bank, they can leave, as Pete found out to his great joy when the $700,000 opening deposit came across his desk.

And one is reminded of the story of the man who dies and is asked by God, "Do you want heaven or hell?"

He says, "Let me see them."

He sees them both. In heaven, they are reading the Bible and drinking tea, while in hell they are playing golf and tennis, partying, and having fun.

"I'll take hell," he says. Immediately thereafter, the partying ends, and it becomes nothing but sweat and hard work.

"How come it looked so great before, but now it's so terrible?" he asks.

God's reply: "Then you were a tourist. Now you're an immigrant."

The lesson for bankers — don't treat acquired institutions like immigrants if you want to keep their customers. And if you make the new acquirees feel like part of the family, it will also make more tourists (in the form of other banks) eager to immigrate to your corporation instead of to the competition. This is a bonus that can be highly valuable. ■

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MEMORY BANK

The following quiz is based on material that appeared in last week's issues of the American Banker. Answers are on page 11.

1. In a retrospective of her recently completed term as president of the National Association of Bank Women, what issue did Evon Emerson cite as the main focus of her year in office?

2. The profitability of bank credit card operations depends, to a large extent, on interest income from unpaid consumer balances. A recent survey of 1,444 card-issuing banks, done by the American Bankers Association, indicates a significant change in the proportion of cardholders who pay their balances in full each month. Has this proportion been rising or falling since 1987?

Credit Cards

3. American Express Co. has announced a $50,000 program of assistance to flood-stricken Bangladesh, half of which will provide food and medical supplies through the International Red Cross. The other $25,000 in emergency funds is allocated to the International Child Health Foundation to control a potentially fatal disease that is the major medical problem resulting from the floods. Identify this medical problem.

4. Congress imposed a prohibition on new U.S. bank lending to the Republic of South Africa in November 1986. According to a report by the General Accounting Office, what was the effect of this ban on lending activities to South Africa in the first half of 1987?

5. Signet Banking Corp., Richmond, Va., is delivering telephone banking and MasterCard services to individuals with special needs through a telecommunications device known as a TTD. Signet says up to 14,000 residents in its Maryland-Washington-Virginia market could benefit from using this device. What is the special need of this market segment?

Home Banking

6. Shoppers at Sears, Roebuck and Co. retail outlets have long enjoyed the privilege of using the Sears credit card. Their options were expanded with introduction of Discover, the Sears all-purpose credit card. What new credit option for Sears shoppers will be tested this month at six stores in the Mid-Atlantic region?

7. The Bank of Boston's sports marketing program has been effective in building consumer recognition for this superregional institution through broadcast coverage of competitions in New England such as the U.S. Open golf tournament in Brookline, Mass., and sponsorship of the Boston Celtics basketball team and a rowing competition on the Charles River. At an estimated cost of less than $25,000, the Bank of Boston Sports Network has achieved a marketing coup by providing coverage of an event that is being carried by more than 50 radio stations throughout New England and in Denver, Detroit, Los Angeles, Pittsburgh, and New York. Identify this event.

— Robert Paul Molay

NEWS MONDAY

AN AMERICAN BANKER WEEKLY FEATURE

This Week's Quote

It's like poison gas. You can't smell or see it, but it is in the room.

An ex-Comptroller staffer, reacting to a recent court decision involving Citibank that extends the Fed's jurisdiction over national banks.

Also in the News

Debts, Quotas at IMF Meeting

The Third World debt crisis and capital quotas were the major issues at last week's joint annual meetings of the International Monetary Fund and the World Bank in West Berlin. The tension over quotas — the capital that IMF member nations deposit with the fund — has been between the United States, which opposes an increase, and Japan, which would like to see total IMF quotas rise sharply, as well as its own shareholding in the fund.

The U.S. delegation was also irked because Japan stole the limelight with two new plans for dealing with the debt crisis. Most of the attention has been grabbed by the Japanese proposal to recycle more of its trade surplus to middle-income debtor countries as loans with below-market interest rates. *(For further information, see the stories on page 1 and page 22 of the Sept. 28 issue and on page 2 on Sept. 27.)*

Irving Lawsuit Surprised BCI

Banca Commerciale Italiana angrily insisted last week that it heard nothing from Irving Bank Corp. before Irving charged in a lawsuit that the Italian bank had secretly agreed to "share the spoils" of the hostile takeover bid for Irving. Irving has charged in federal court that the Bank of New York induced Banca Commerciale to drop its friendly offer for 51% of Irving so that the Bank of New York could buy Irving on its terms. The Milan bank is not an actual party to the case. The single defendant named by Irving is the Bank of New York, which has waged a yearlong battle to acquire Irving. The lawsuit is Irving's latest move to derail that effort. *(Sept. 30, page 2.)*

Insolvents Eye Home Loan Bank

Officers from three troubled Texas thrifts have been nominated as directors of the Federal Home Loan Bank of Dallas, sending regulators scrambling to disqualify them before an upcoming board election. On Oct. 25, the Texas thrift industry will elect three directors for the Dallas bank. Of 10 candidates, 3 come from Texas thrifts that had either substandard net worth or negative net worth on June 30. Thrift experts object to the prospect of seating operators of insolvent thrifts on the board. *(Sept. 30, page 1.)*

Sears to Test Visa, MasterCard

Sears, Roebuck and Co. — the nation's largest retailer, which has long resisted taking bank credit cards in its stores — will begin testing MasterCard and Visa cards this month. Russell E. Hogg, president of MasterCard International, disclosed Sears' long-awaited move in his speech last week to the American Bankers Association's national bank card conference in San Francisco. Mr. Hogg said Sears will begin accepting bank credit cards at six stores in the mid-Atlantic region. *(Sept. 29, page 1.)*

South Africa Loans Rise

U.S. bank lending to South Africa rose slightly during the first six months of 1987, despite a congressional ban on such activities. The increase, according to a recently released report by the General Accounting Office, followed the prohibition on new lending that took effect in 1986. The GAO said it is unable to explain the small increase, adding that the U.S. Treasury Department is now looking into reasons for the upswing. *(Sept. 28, page 3.)*

Texas Reserve Doubled

First Interstate Bancorp, Los Angeles, will more than double the loan-loss reserve of its Texas subsidiary, First Interstate Bank of Texas, adding $180 million in the third quarter to offset a rise in nonperforming assets. First Interstate also said it would move about $400 million in nonperforming assets into a special-purpose subsidiary in the first quarter of 1989. *(Sept. 23, page 3.)*

Perspective/Banks Have Trouble Picking Political Winners

Big-Bank PACs Balance the Handouts

By BART FRAUST

POLITICAL action committees of the 10 largest bank holding companies, which traditionally have leaned toward the Republican Party, have begun to divvy up their money more evenly between Democrats and Republicans. But the largesse does not extend to Massachusetts Gov. Michael Dukakis, the Democrats' presidential candidate.

As of early September, Mr. Dukakis had received a meager $15 for his campaign from the Chemical Bank Fund for Good Government, according to reports filed by the committee with the Federal Election Commission.

That was it.

He got zilch from the PACs of Citicorp, Chase Manhattan Corp., BankAmerica Corp., J.P. Morgan & Co., Security Pacific Corp., Manufacturers Hanover Corp., First Interstate Bancorp, Bankers Trust New York Corp., and Wells Fargo & Co.

But Dukakis supporters should not be disheartened. In the past, the bank PACs have been something less than clairovoyant.

For example, in the 1985 and 1986 Senate campaigns, more than one-third of the money contributed by the top 10 bank PACs to U.S. Senate candidates went to individuals who later were defeated in primaries or general elections. Of the 11 Senate candidates who received the most money in 1986, five lost. In fact, during those years, the Senate candidate who received the most money was Slade Gorton, a Washington Republican who lost a reelection in 1986 to Democrat Brock Adams. Mr. Adams got less money than Mr. Dukakis. He got nothing.

Sen. Lloyd Bentsen, the Texas Democrat who is Mr. Dukakis' running mate, is hedging his bets by also seeking reelection to the Senate. While Mr. Bentsen's vice presidential campaign has not lit any fires among the banks, his Senate campaign is very popular. He received $24,750, the fifth highest total for any Senate candidate.

GENERALLY, the banks stay away from presidential politics. Only three of the 10 — the Citicorp, Chemical, and Manufacturers Hanover PACs — contributed to presidential candidates. No candidate received the maximum $10,000 contribution from any of the banks.

Vice President George Bush, the Republican candidate, received the most money, the Federal Election Commission reports show. Mr. Bush got $5,445, compared to $3,615 for Sen. Bob Dole, R-Kan.; $2,300 for Sen. Albert Gore Jr., D-Tenn.; $2,173 to Democratic candidate Jesse Jackson; $2,090 for Rep. Jack Kemp,R-N.Y.; $2,000 apiece for Rep. Richard Gephardt, D-Mo., and Sen. Paul Simon, D-Ill.; and $150 to Gary Hart, the former Democratic senator from Colorado.

In the 1987-88 campaign years, the bank PACs have distributed their money more evenly between the two parties in federal elections than in the past, reflecting the Democrats' current control of both houses of Congress. A total of 462 Democratic candidates for president, senator, and congressman received a total of $670,688 from the 10 committees, equal to 59.4% of the money contributed. For the Republicans, 315 candidates got $458,273.

This is in stark contrast to the 1985-86 campaigns, when the GOP got 56.7% of the money contributed.

Average contributions to both parties have become more even. The average contribution for Democratic candidates was $1,451.71, compared to $1,454.84 for the GOP. In the 1985-86 campaigns, the average contribution to Republican candidates was $217.42 higher than for the Democrats.

The committees have cut the number of campaigns to which they contribute by about one-third from 1985-86. However, the average contributions were up sharply. Each candidate received an average of $1,460.49, compared with $1,053.39 in 1985-86.

The Citicorp Voluntary Political Fund continues to be the biggest contributor to campaigns for federal office. The PAC divided $352,655 among 169 candidates. But the Morgan Companies Political Action Committee provided the highest average contribution, giving nearly $3,000 a candidate. The Bankers Trust Political Action Committee showed the biggest increase in contributions, from $75,000 in 1985-86 to $128,200 in 1987-88. The Chase, BankAmerica, and Manufacturers Hanover PACs gave considerably less this time around.

As usual, Banking Committee members were the big money-getters. In Senate races, Chic Hecht, R-Nev,. a Banking Committee member, led with contributions totaling $38,499. He was followed by Donald W. Riegle Jr., D-Mich., at $33,600 and David Karnes, R-Neb., with $32,850. Individual bank favorites were John Chafee, R-R.I., at Citicorp; Mr. Hecht at Chase and BankAmerica; Mr. Karnes at Morgan and Bankers Trust; Pete Wilson, R-Calif., at Security Pacific and Wells Fargo; Daniel P. Moynihan Jr., D-N.Y., at Chemical; and Bill Bradley, D-N.J., at Manufacturers Hanover.

Top money-getters in the House races were Stephen L. Neal, D-N.C., $30,000; Thomas R. Carper, D-Del., $25,728; Doug Barnard Jr., D-Ga., $17,500; Jim Cooper, D-Tenn., $16,966; and Joseph DioGuardi, R-N.Y., $13,525. Mr. Neal, Mr. Carper, Mr. Barnard, and Mr. DioGuardi are Banking Committee members. Mr. Cooper is a member of the subcommittee on technology and finance of the Energy and Commerce Committee.

Rep. Fernand J. St Germain, D-R.I., chairman of the Banking Committee, received a total of $8,000 from the 10 PACs. Rep. John D. Dingell, D-Mich., chairman of the Energy and Commerce Committee and a proponent of limits on bank securities powers, received only $500 — from Chemical. ■

Contributions by Top 10 Bank PACs

During 1987-1988 (through Sept. 9)

	Number	Amount	Average	Percent Of total
Citicorp	169	$352,655	$2,086.72	31.2%
Chase	84	66,020	785.95	5.8
BankAmerica	74	44,628	603.08	4.0
Morgan	87	260,050	2,988.08	23.0
Chemical	115	103,325	898.48	9.2
Security Pacific	48	37,933	790.27	3.4
Manufacturers Hanover	78	70,800	907.69	6.3
First Interstate	26	26,900	1,034.62	2.4
Bankers Trust	63	128,200	2,034.92	11.4
Wells Fargo	33	38,450	1,165.15	3.0

Source: Federal Election Commission

Wall Says He Won't Seek Taxpayer Bailout of FSLIC

FEDERAL Home Loan Bank Board Chairman M. Danny Wall said he will not ask Congress for a taxpayer bailout of the Federal Savings and Loan Insurance Corp. next month when he restates the size of the agency's deficit.

He told reporters last Wednesday that the FSLIC's projected revenues might also be revised upward to reflect an improved rate of recovery in the value of repossessed assets.

The General Accounting Office recently placed the FSLIC's mounting losses between $40 billion and $50 billion, prompting Senate Banking Committee Chairman William Proxmire, D-Wis., to call for a taxpayer bailout. He joined a chorus of critics who believe the industry lacks the earnings to shoulder the total cost of the FSLIC's recovery.

"To suggest a taxpayer bailout [for the FSLIC] is predetermined is inappropriate," Mr. Wall said.

Even if he were to agree at a future date that the FSLIC's projected revenues were insufficient to cover its losses, "there's a long way between that point and tapping the taxpayer for a financial contribution," Mr. Wall said.

"I think there is a long list of options that could be utilized," he said. "Some might require new law. Some might be within our current authority. They all need to be investigated before we suggest using taxpayer dollars."

— Jim McTague